

Financial Condition Forum

September 2002

City Auditor's Office

City of Kansas City, Missouri

September 4, 2002

Honorable Mayor and Members of the City Council:

The City Auditor's Office hosted a forum in June to gain insights and ideas about how to address the city's financial condition and ways to communicate these ideas to elected officials and the public. We invited people with economic and financial expertise from business, government, not-for-profit, and academic organizations to discuss the following questions:

- What is the city's financial condition?
- What are the causes of the financial condition?
- What are the effects of the financial condition?
- How can the city improve the financial condition?

I came away from the forum with an understanding that the city's financial condition is precarious and that achieving stability requires hard choices and leadership. My understanding is based on the forum and is generally consistent with what the participants said; however, it is not necessarily the opinion of the forum participants.

Characterizing the city's financial condition as precarious means that it can go either way. The city could either spiral down with service deficiencies, declines in property values, erosion of the tax base, and continuing deferred capital and infrastructure maintenance—or, the spiral could be halted, by addressing issues now with leadership and discipline. It is clear that elected officials face a tougher economic environment now than a few years ago. This environment will test the current leadership.

Some participants said the financial condition is worse than it might appear. Citizens are dissatisfied with city services and there are significant problems with basic infrastructure. These types of problems don't show up in the budget or financial statements. Consequently, it is difficult for elected officials to tell from the financial documents how big or how deep the service and infrastructure problems are.

Strengthening the city's financial condition requires leadership. Governments always face limited resources, and it is the Mayor and City Council's responsibility to prioritize city services and set goals. In order to do this effectively, the Mayor and City Council should demand information from staff that is useful, understandable, and relevant to the decisions they need to make. The Mayor and City Council need measures of service deficits and costs, and capital and infrastructure deficits – not just needs or wants, but costs of deferred maintenance based on repair curves and life cycles. The Mayor and City Council need information on revenue problems, clearly defined by revenue source, separating out rate increases from growth. The Mayor and City Council must set their agenda and demand information to address their goals on a regular and timely basis.

Providing leadership will also require the Mayor and City Council to develop policies based on the principles they believe in, and the discipline to make decisions consistent with the policies. Developing policies and making decisions consistent with the policies will force the Mayor and City Council to say “no” more often – perhaps, much more often.

The Mayor and City Council should provide oversight, ensuring that city staff takes action that is consistent with their policies and goals. And finally, the Mayor and City Council should require staff to provide information that will allow them to evaluate those actions and monitor progress.

There are difficulties unique to Kansas City’s governance structure. The Mayor and City Council’s ability to provide leadership is reduced by the diffusion of power in Kansas City government. One participant characterized the structure as “cul-de-sacs of power.” Boards and commissions make significant decisions that impact the city’s financial condition. Many of these boards and commissions do not see the big picture and do not have the same agenda as the Mayor and City Council. The governance structure limits the Mayor and City Council’s ability to develop and execute a long-range strategic financial plan.

Working within this governance structure will require that the Mayor and City Council clearly articulate policies and goals. Elected officials need mechanisms to collaborate with boards and commissions to reach consensus on goals that are consistent with the needs of the entire community.

This report contains a summary of the forum’s discussion of the city’s financial condition, meeting agenda, list of participants, questions the participants were asked to consider prior to the forum, and background materials provided to participants. A description of the scope and methods can be found in the appendices.

The draft of this special report was sent to the City Manager for review on August 22, 2002. We appreciate the time, effort, and valuable insights of the forum participants. The audit team for this project was Sharon Kingsbury and Michael Eglinski.

Mark Funkhouser
City Auditor

Financial Condition Forum

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Summary of the Financial Condition Forum

What is the City's Financial Condition?

Participants in the forum generally characterized the city's financial condition as precarious and related it to problems with financial management, delivery of services, and infrastructure.

Financial Management

- Several participants said the city's financial condition is precarious and unstable, and the situation is worsened by a lack of direction and priorities.
- One participant remarked that revenues have grown through adding new taxes, and adding new taxes is not a financially sustainable approach. You can only add new taxes for so long; eventually you have to stop adding new taxes.
- Other participants made note of the fact that Kansas City, like other older urban cities, balanced its recent budget by using reserves and deferring maintenance.
- The future might be a problem, according to another participant, who said the city is like a large corporation that could go down the tubes with a couple of bad decisions.
- However, it was also said that Kansas City has made progress, compared to the early/mid-1980s. This participant said that Kansas City has increased its commitment to financial condition, and the city is better off than it was.
- Another participant said that compared to other older urban cities, Kansas City's financial condition is strong, but its policies are reactive rather than proactive.
- Several participants said that it was apparent that the city is spending a lot of money on development incentives without a clear idea of what it is trying to get in return. They remarked that the city doesn't have a strategic plan to make sure that tax incentives are a good business deal for the city.

Service Delivery and Infrastructure

- There was general agreement that citizens are dissatisfied with service delivery, and one participant said that citizen expectations have diminished.
- Several of the participants related personal experiences with city services including problems at Kemper Arena and with city infrastructure – streets, curbs and sidewalks, tree trimming. One participant described a crisis in service delivery while another felt “crisis” was too strong a word to describe the situation.
- Some participants said the condition of streets has gotten worse over the past twenty years and infrastructure has decayed.
- One participant pointed out that the city is responsible for a lot of infrastructure and the responsibility doesn’t match the tax base. This person said decades ago the die was cast when the city built a lot of infrastructure without considering future maintenance costs.

What Are the Causes of the City’s Financial Condition?

A range of factors affects the city’s financial condition. Forum participants identified issues related to leadership and governance, policies, information provided to the Mayor and City Council, services, as well as other concerns.

Leadership and Governance Issues

- Several participants remarked that in Kansas City authority is decentralized, which diffuses leadership. One participant said that the Kansas City government structure creates cul-de-sacs of power. Participants spoke of the city’s lack of control over large governmental units [the police and parks departments, and other agencies governed by boards and commissions] saying that the situation is unusual and inefficient.
- Another participant commented on the large number of boards and commissions. Another said that the governing boards of some of these entities function as advocates for their agency, rather than providing oversight of the agency’s activities and staff.

- One participant said there is a governance issue. This participant went on to say that service delivery and governance are the two essential functions of local government. You need to satisfy customers and maintain a good financial condition.
- Through the course of discussion, the group listed the most powerful influences on the political environment, saying that politics is largely driven by five elements, all of which have their own political agendas:
 - Investment in my area or community (district)
 - Proponents of the “big idea” or sexy idea
 - Labor unions
 - The development community
 - To some extent, neighborhoods

Policy Issues

- The group noted the lack of a policy framework for decision-making, based on principles, and one that is used, with commitment from all elected officials.
- One participant said elected officials need help creating policies that they can commit themselves to. Another responded that there needs to be leadership and policy so that when the political pressure gets tough, elected officials can stick together with a plan.
- Another participant said elected officials should focus on priorities and match priorities to resources.
- Two participants remarked that the emphasis in Kansas City has been on specific development projects rather than policies, resulting in decisions made in isolation, disconnected from the whole. Another participant said there is no strategy – there should be planning and consensus around principles.
- Participants noted there are few financial policies beyond maintaining an 8 percent fund balance, which the city blew by this year. Others commented that there is little discipline in maintaining adopted policies. One participant said that financial decisions in Kansas City government are the consequence of other decisions.

- Several participants said that in Kansas City financial integrity is not politically relevant, as it appears to be in the suburbs. One participant said the challenge for staff is how to get this information [about the city's financial condition] out and make it politically relevant. Delivering financial integrity should be something [for elected officials] to hang their hats on.
- Other participants commented that there is no policy on development incentives and no policy on cost-benefit analysis of proposed incentive projects. The city may be trying to eliminate blight but doesn't know the costs and benefits. Someone asked if the TIF Commission does analysis from the city's perspective. One participant said yes, and another said no.

Information Issues

- One participant said after reviewing documents such as the city's budget and financial statements, he thought that the Mayor and City Council are not provided with the right information; it is too technical and developed for professionals in finance.
- Several other participants remarked that the quality of information is good, but it is not presented to elected officials in a way that is understandable and useful.
- Another participant said the available information does not answer policy questions – which suggests that there are no policies. Several of the participants asked, are there financial policies? What are the financial policies?
- All agreed that the available information is not politically relevant. Another pointed out that the information is not engaged in the policy-making process.
- One participant said that the available information focuses on the past, not on the future. Someone else responded saying you need more long-term forecasting – good five-year and 10-year forecast information.
- Another remarked that while there is some long-term forecasting, the forecast information is not engaged in the political debate.
- The group generally agreed that elected officials need understandable, useful information, and they need sufficient time to review it. Several participants spoke of the need for the

Mayor and City Council to work together on the financial data in focused sessions.

- Forum participants noted that there is a pattern in the budget process in which there are repeated forecasts of massive projected deficits, which somehow are fixed each year as the new budget is adopted. This long-established pattern reduces credibility and leads the Mayor and City Council to distrust staff. Participants characterized this pattern as crying wolf and creating noise, which elected officials discount.
- One participant noted that others, such as business and labor groups, are able to provide elected officials with information that is useful and understandable. Professional government staff needs to develop understandable, politically relevant financial information for the Mayor and City Council.

Service Issues

- There is a spiral effect where poor service impacts the tax base, infrastructure declines, eroding the tax base, weakening the financial condition, resulting in additional poor service delivery.

Other Issues

- There was discussion of a Mid-western preference for pay-as-you-go rather than general obligation debt financing for capital infrastructure. Another participant asked, is capital spending adequate? What is the tax burden? Maybe it should be higher. Compared to other cities, Kansas City has a low debt burden.
- Several participants remarked on the economic vitality in the suburbs, and said that most of the growth is occurring elsewhere.
- Two participants mentioned government functions, and the need to determine what you want to be. One person said the city tries to be all things to all people. Another said the city is unable to say no to problems that should be addressed instead by the state, county, or private sector.

- Someone else said the city should figure out what it wants to do and do it well. Another participant responded, saying the city needs to be competitive at whatever it decides to do – carve out a niche and do it well.
- There was general discussion of the tax disadvantages of doing business in Kansas City, as opposed to the suburban communities.

What Are the Effects of the City’s Financial Condition?

Forum participants generally agreed that a precarious financial condition reduces the city’s competitive edge, weakens service delivery, results in deterioration of infrastructure, and erodes the tax base.

- One participant remarked that the financial condition makes the city less able to compete regionally and locally for population and investment.
- Another remarked that as infrastructure declines, the tax base is eroded, putting more pressure on the city’s financial condition.
- One participant said the city should figure out how to spend its money, which calls for critical analysis of what is needed.
- Several participants remarked on a general lack of interest in focusing on the city’s financial condition as a critical issue. Another participant said that questioning the effects of past policy and decisions, which created the financial condition, is avoided. This participant said asking about the effect is not a popular question.
- Another participant said, you can’t have a great economy without a great urban center, and you can’t have a great urban center without discipline. Decision-makers need to have processes to force them to make decisions in an open political process.
- Several participants mentioned dissatisfaction with the city’s streets, curbs and sidewalks, maintenance of city facilities, and tree trimming. One participant said that quality of service is an issue, and asked, is this a money question or a management question? Someone else said, based on the citizen survey data,

there is a service delivery crisis. Another said there should be more explicit conversation about the relationship between service levels and costs.

- Another participant said that review of the financial information indicated a lack of productivity, and that the city is not using revenues well, and management is not suggesting a remedy – there is a lack of effort by management.
- One participant spoke of the effect of increasing reliance on current revenue – instead of debt – to pay for capital expenditures, which creates intergenerational tax inequity. Today's taxpayers are paying for both deferred maintenance and new facilities that will benefit future generations.
- Another responded that aversion to using general obligation bonds for capital expenditures increases pressure to use TIF, resulting in higher TIF debt levels.

How Can We Improve the City's Financial Condition?

The Mayor and City Council need information and a framework for making financial decisions in order to improve the city's financial condition. Participants in the forum emphasized the importance of discipline, leadership, and consensus.

Information

- The group generally agreed that the Mayor and City Council need information that is politically relevant, and that they can understand and use. Much of the information they get is too technical. City staff needs to provide information for the ordinary citizen – which is what most elected officials are.
- Participants said that elected officials need information that communicates the policy and political implications of decisions. The group also agreed that city staff should provide politically relevant information.
- There was discussion about the need for the Mayor and City Council to spend more time working with the information. Several participants remarked that business sessions do not provide enough time for elected officials to really get into the data.

- There was general agreement that the city needs prospective information such as 5-year and 10-year financial forecasts, and that these forecasts must play a role in policy debates and discussions.
- One participant suggested that city staff should graph and compare the growth of recurring revenues and personal service expenditures, as an example of the type of information elected officials need.
- Several participants said elected officials should know the long-term impact of tax increment financing on the city's financial condition. One said the city needs a strategic plan to make sure that TIFs are a good business deal for the city.
- Two participants said that demographics suggest that there will be people interested in moving back to the city, especially those retiring, who will desire the convenience and the amenities offered by the city. One said the city should take advantage of this; but it will require a plan to compete for and target this population.

Framework for Financial Decisions

- Participants pointed to the need for a financial vision – where the city wants to be in 10 years – with a set of core financial policies, articulated priorities, and a financial framework to drive services. The group agreed that priorities need to be clear, and that there must be a consensus. One participant remarked that the next 10 years will be a critical time for the city.
- There was general agreement that the city needs mechanisms for coordinating spending between the city and the police and parks departments. The current governance structure complicates the ability of the city to make strategic financial decisions. Mechanisms to collaborate should be developed. One participant said the Mayor and Council should hold an annual retreat with the police commissioners. Another said there needs to be clear objectives and an internal commitment to work together.
- When asked about the most important thing they had heard during the forum, a participant said, focusing on setting policies and sticking to them. Another responded – disciplined strategic budgeting. Someone else said, the most important idea is a focus

on policies rather than projects and the discipline to adhere to them.

- The group agreed the city needs policies to control economic development. One participant said the city should require cost benefit analysis and should make sure the city gets what it wants.
- Another participant suggested a strategy that focused less on individual projects and more on creating an environment where all projects can thrive – not just specific deals. This participant went on to say the city should be in the business of planning and urban design, and let the business community determine what is viable and what should be built. The city should develop a policy framework to guide development and get out of the way and leave the details to others.
- A number of participants remarked that the city could eliminate process problems, focus on leveling the playing field, and build infrastructure to support development, which would be preferable to project-by-project economic development.
- One participant said the city needs to deliver services like a business, and that the Mayor and City Council and staff need to care about delivering services in a business-like manner. Another said management should make departments accountable for service. Someone else said the City Council should control the bureaucracy. If the City Council can force departments to improve, citizen satisfaction will improve. Several participants said benchmarking, performance measures, and evaluation can increase accountability at the department level.
- Some participants said that privatization was not a long-term solution, while others felt it shouldn't be dismissed. One participant said that if the city were to privatize a department, it would get the attention of others and could lead to improvements in service.
- There was discussion of tax inequities and tax burden. One participant said the city should consider tax reform rather than tax incentives. Tax reform is more equitable and could improve the business climate. There is the issue of income versus sales taxes – these are essential decisions that elected officials must make.
- Several participants thought it might be appropriate to increase the use of general obligation debt. Someone said there should be

immediate, and major investment downtown if the city is to get ahead of demographic trends. It is fiscally sound to borrow money to make the improvements to keep people downtown.

- Another responded that the city has a relatively moderate debt burden compared to other cities and has financed a lot of capital through pay-as-you-go. Someone else said general obligation debt could be used to finance priority infrastructure. Another pointed out that general obligation debt is more equitable than pay-as-you-go financing for capital projects.
- One participant remarked that there is a changing relationship between the center city and the suburbs, which requires regional leadership to change the way we do things.
- Several participants spoke of the need for regional leadership and cooperation. It was agreed that strong suburban communities need a strong urban center. Another participant noted that most metropolitan residents identify with Kansas City and use facilities, like the symphony and the zoo, which are supported by municipal tax dollars.
- There was consensus on the need for discipline in maintaining policy. At the same time, the group agreed that the economic environment, as well as an array of other concerns, impact elected officials and management staff. A participant said it would take time to create and build a tradition of discipline. Several participants remarked that elected officials need the support of the business community as they develop financial policies.

Appendix A

Introduction, Objectives, Scope, and Methodology

Financial Condition Forum

Introduction and Objectives

We initiated this special report, in part, to fulfill our mission of being a catalyst for improving city government and providing the Mayor, City Council, and City Manager with information which can help them in providing oversight of the city's long-term financial condition. In addition, we initiated this special report to generate new ideas and insights that will help in improving the city's financial condition.

The contents of this report reflect responses to four questions asked of those who participated in the financial condition forum:

- What is the city's financial condition?
- What are the causes of the city's financial condition?
- What are the effects of the city's financial condition?
- How can we improve the city's financial condition?

Scope and Methodology

The forum participants are economic and financial professionals from business, government, not-for-profit organizations, and academia. We consulted with the Chair of the Finance and Audit Committee, the City Manager, and the Director of Finance to help identify participants. A list of the participants is included as Appendix D. A month prior to the forum, participants were mailed background information and a list of questions to consider. Additional data was provided through our website, including the 2003 submitted budget, CAFR, and audit reports addressing budget and financial issues. A few participants called for additional information, regarding the city's work force, and information comparing the forecasted imbalance to actual fund balance for 1998-2002, which we provided.

Appendix B

Financial Condition Forum Agenda

Financial Condition Forum
June 27, 2002
Agenda

9:30 a.m.	Coffee	MARC, 3 rd floor 600 Broadway
10:00 a.m.	Opening Session Welcome Meeting Purpose	Mark Funkhouser, City Auditor Moderator
10:05 a.m.	Discussion of Key Issues Personal Introductions Issues or Questions	Forum Participants
11:15 a.m.	Break	
11:30 a.m.	Addressing the Issues/Working Lunch <ul style="list-style-type: none"> • The City's Financial Condition • The Effects of Financial Condition • Causes of the Financial Condition • Improving the Financial Condition 	Forum Participants
2:15 p.m.	Break	
2:30 p.m.	Most Important Points/Conclusions	Forum Participants
3:30 p.m.	Next Steps for the City Auditor	Forum Participants
4:00 p.m.	Adjournment	Mark Funkhouser, Moderator

Appendix C

Background Information

(Mailed to Participants, June 5, 2002.)

Financial Condition Forum

Background

To help you prepare for the forum on June 27, we are providing you with some background information on Kansas City, city government, city finances and financial condition. We include a list of documents that are available on the web that provide further information.

Kansas City, Missouri

Kansas City, Missouri, is a central city with a population of about 445,000; of that, 42.4 percent claim minority ethnicity. The metropolitan area has a population of about 1.7 million. The city covers about 317 square miles and includes a relatively old urban core, suburbs and undeveloped land.

The city lost population during the 1970s and 1980s, but the trend has reversed and the population grew throughout the 1990s. Most of the population growth occurred in the northland suburbs, and some moderate growth in the southeastern part of the city. The central city continued to lose population, but at a less significant rate.

Kansas City includes parts of four counties and 13 school districts.

City Government

Kansas City has a council-manager form of government. The City Manager is hired by and reports to the Mayor and Council. Department directors report to the City Manager.

Citizens elect the Mayor and City Councilmembers from non-partisan candidates running for office every four years. The City Council is a 13-member governing body, which includes the Mayor. The 12 City Council representatives are elected from six council districts, where one member from each district runs at-large. Term limits, imposed by the City Charter, restrict the Mayor and Council to two four-year terms of office.

The city's budget totals almost \$1 billion. There are a total of 21 city departments. The table (Exhibit 1), shows the departments with total expenditures of over \$20 million budgeted in the current year.

Exhibit 1. Departments with \$20+ million budgets.

Department	Budget 2002-02 (\$ millions)
Police	\$ 140.8
Water Services	133.0
Public Works	130.9
Aviation	107.8
Fire	90.3
Parks and Recreation	51.4
Convention and Entertainment Centers	22.8
Neighborhood and Community Services	20.5

Sources: Adopted City Budgets

In addition to departmental expenditures, major city expenditures include funding for public transportation, indigent health care, emergency medical services, and development incentives.

Police services in Kansas City are provided in an unusual way. The city funds the Police Department, but the department is a state agency under the exclusive control of the Board of Police Commissioners.¹ The Board of Police Commissions includes the mayor and four commissioners appointed by the Governor.

A five-member board, appointed by the mayor, governs the Parks and Recreation Department. Under the city charter, the Board of Parks and Recreation Commissioners is responsible for operating all public playgrounds, swimming pools, grounds for games or sports, and other recreational facilities. The board is authorized to expend money belonging to park fund districts, appropriated to the department from the general fund, or available from any other source. The board also appoints the director of parks and recreation.²

City Finances and Financial Condition

The city's budget has not been structurally balanced. The City Auditor's Office defines a structurally balanced budget as meeting four conditions:

- Current year revenues and expenditures are in balance.
- The fund balance is maintained at the level set by council policy (8 percent).
- Maintenance is not deferred.
- Expected future expenditure growth is less than expected revenue growth.

In the 2003 submitted budget, the structural imbalance is clearly evident, in that future revenue and expenditure growth are not balanced, reserves are being used to fund ongoing operations, and capital maintenance is being deferred.

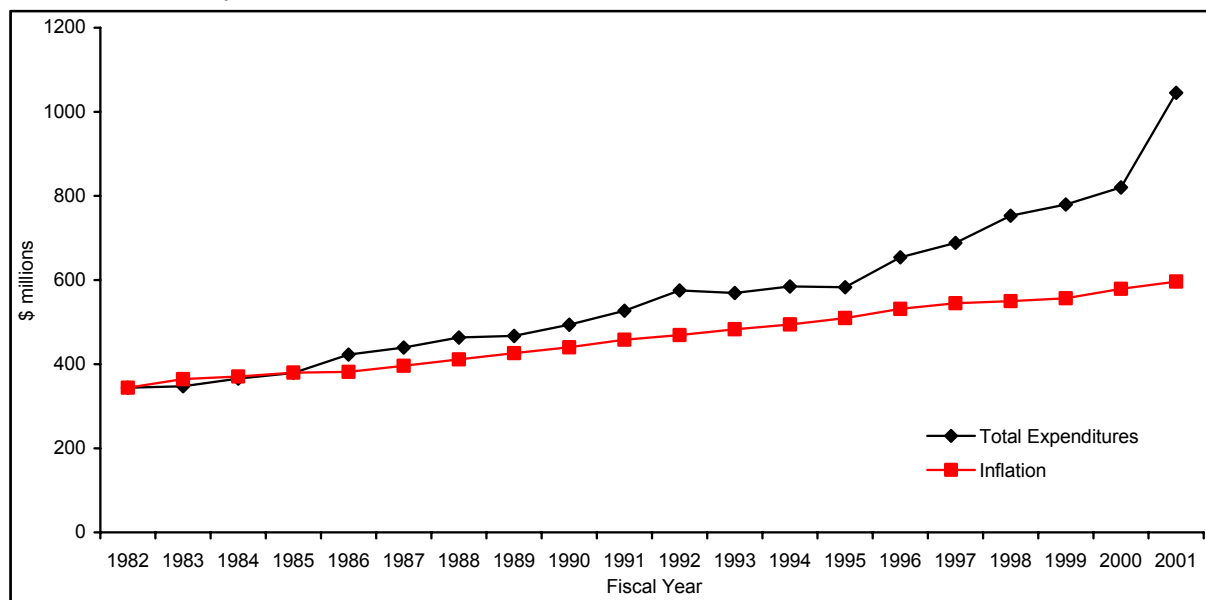
The city faces financial challenges. The City Auditor's Office has identified deferred capital maintenance, decreasing financial flexibility and sharply increasing spending on development incentives as financial challenges. Past reliance on new revenues to address priorities provides only short-term solutions. Voters are willing to support specific programs, as evidenced by ballots passed over the past decade. In addition, citizens are concerned about the city's infrastructure and deferred capital improvements.

Over the past two decades, expenditures have grown substantially. Between fiscal years 1982 and 2000, expenditures increased about 42 percent, adjusted for inflation. Operating expenditures made up about 71 percent of the budget in fiscal year 1982 and 65 percent of the budget in fiscal year 2000. Personal services (wages, salaries, overtime, etc.) have been about 55 percent of operating costs. Total expenditures increased sharply in fiscal year 2001, with an additional \$85 million in Aviation capital expenditures, \$36 million for Liberty Memorial renovation and expansion, and \$49 million to refund two bond issues.

¹ Section 84.460, RSMO; *Fantasma v. Kansas City, Missouri, Board of Police Commissioners*, 913 S.W.2d 388 (Mo.App.W.D. 1996); and *St. Louis Police Officer's Association v. Board of Police Commissioners*, 846 S.W. 2d 732 (Mo.App.E.D. 1992).

² Charter of Kansas City, Missouri, Article III, Sections 50, 55.1, and 63.

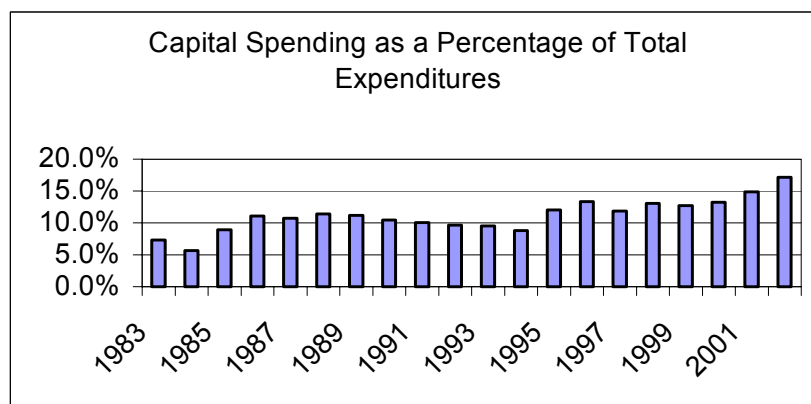
Exhibit 2. Total Expenditures All Funds, Fiscal Years 1982-2001



Source: Review of the Submitted Budget for Fiscal Year 2003.

The city has used new revenues to address priorities. Rather than shifting funds from low to high priorities, the city has used new revenues to address priorities, add and expand programs, and retain programs previously funded through federal revenue sharing. Using new revenues—including sales tax, use tax, and gaming—the city increased funding for capital improvements. However, while capital improvement spending has increased as a percent of the general municipal budget, spending remains below the 20 percent goal adopted by the city council in 1997. These new revenues accounted for \$107 million in fiscal year 2001.

Exhibit 3. Capital Spending as a Percentage of Total Expenditures



Sources: Adopted City Budgets.

The city has historically addressed shortfalls with short-term measures. After federal revenue sharing was discontinued in fiscal year 1988 and during the economic downturn in the early 1990s, the city balanced annual budgets by drawing down the fund balance, deferring maintenance, cutting vacant positions, freezing salaries, not budgeting for expected costs such as utility bills and health insurance premium increases, and relying on one-time revenues to cover ongoing operating costs. These short-term

measures contributed to a backlog of maintenance, problems with compensation, out-dated technology, and low fund balances—pushing costs to future years.

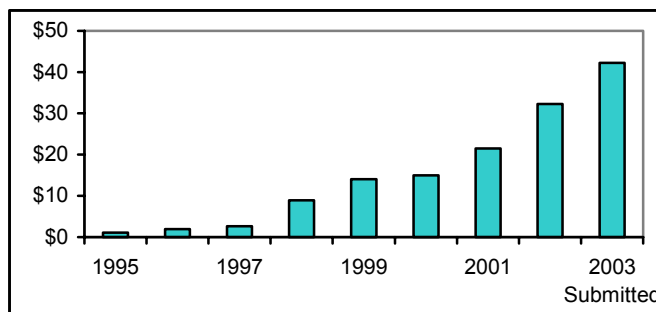
Voters have approved tax increases to support specific programs. In 1989, voters approved an increased property tax levy for health care, and an increased cigarette tax of 5 cents per pack to fund operating a hazardous materials team. In 1990, voters approved increasing property taxes for zoo expansion, and hotel/motel and restaurant taxes to expand the convention center. Hotel/motel taxes were increased again in 2000 to support and promote tourism. In 1992, voters replaced the city automobile sticker fee with a uniform vehicle license fee of \$12.50 for each motor vehicle to fund parks maintenance, and construction and renovation of community centers. Voters approved a one-half cent sales tax collected for 18 months between April 1999 and September 2000, to fund renovation of the Liberty Memorial. Recently, voters approved an additional quarter cent sales tax to be collected for 15 years, starting January 1, 2002, to fund Fire Department capital improvements and hire additional firefighters. In April 2002, voters approved another quarter cent tax increase to provide \$110 million for improved police facilities.

The condition of the city's infrastructure is important to the public. In the 2001 citizen survey, 74 percent of respondents selected maintenance of city streets, buildings and facilities as one of their top three choices for services to receive emphasis over the next two years. In addition, citizen dissatisfaction with street maintenance is growing. When surveyed about a variety of city services, citizens were least satisfied with street maintenance, and satisfaction is declining.

The city faces increasing problems with financial flexibility. About 40 percent of the city's operating revenues are restricted, limiting the city's financial flexibility. Restricted revenues increased from 18 percent of operating revenues in fiscal year 1990, to a budgeted 42 percent in fiscal year 2003. Restricted revenues are earmarked for specific uses by state law, bond covenants, city ordinances, or grant requirements.

Development incentives have grown sharply. Spending for development incentives has grown sharply in recent years and is expected to continue to grow (see Exhibit 4). Despite significant risks, the city has not adopted a policy on the use of development incentives.

Exhibit 4. Tax Increment Finance Expenditures



Source: Review of the Submitted Budget for Fiscal Year 2003.

Additional information

For those of you who might like additional information on the city's financial condition, we have prepared a link to documents (the budget, CAFR, City Auditor's Office Budget Reviews, the Tax Effort Study, the City Service Performance Report, Citizen Surveys, etc.) at the City Auditor's Office website. Look for the link titled "Financial Condition Forum Participants Info" at the top of the page, click, and you should be able to review materials of interest.

www.kemo.org/auditor

Information

Have we provided you with the information you would need to evaluate financial condition?

What other information would you need?

What information do citizens, elected officials and city staff need? Do they need different information?

City's Financial Condition:

How would you characterize the financial condition of Kansas City?

What information would indicate the condition had worsened or improved?

Effects of Financial Condition:

What are the long and short term consequences, given the city's financial condition?

What are the consequences on the quality of life in the city?

What are the consequences on the business environment?

What are the consequences for economic development?

What are the consequences on lower, middle and upper income residents?

What are the consequences for young and old residents?

What are the consequences for city government?

Causes:

What factors do you see as "causing" the city's current financial condition?

How can local government balance immediate needs and long term needs?

How does Kansas City's form of government (council-manager with appointed boards over the police and parks departments) affect the city's financial condition?

Is the structural imbalance a significant problem?

Improving Financial Condition

What steps could be taken to strengthen the city's financial condition? Who should take those steps?

Are there different steps to strengthen condition in the short term and long term?

How can city government communicate about financial condition?

What are the roles different actors (e.g., city staff and elected officials) play in communicating about financial condition?

How can citizens communicate with city staff and elected officials?

How can city staff communicate with citizens and elected officials?

How can elected officials communicate with city staff and citizens?

What financial challenges might the city face in the future?

How might the city address financial challenges?

(Mailed to Participants, June 19, 2002.)

Financial Condition Forum Additional Background Material

Two questions were posed after the initial mailing of background materials: 1) the actual number of city employees, and their numbers broken out by union, non-union categories, and exempt and non-exempt management staff; and 2) a comparison of the 1998 financial forecast, published in the *FOCUS Governance Plan*, to the actual outcome.

City Employees

The actual number of employees, across all funds and categories was 6,968.7 in 2001, including police officers. The estimated number of total employees for the 2003 budget is 6,716.6, a reduction of 252.1. The city manager's 2003 submitted budget eliminated a total of 189 full-time positions. There is a hiring freeze for all non-essential employees in effect indefinitely.

The chart below provides information on the number of employees broken out by category, as of June 2002.

Category	Number of Employees
Local 42	794
Local 3808	41
Local 500	1,898
Management, exempt	900
Management, non-exempt	997
Police Officers	1,222
Police Civilians	651
Total*	6,503

*Not including vacant positions.

Local 42 negotiates for fire employees; Local 3808 covers special fire fighter positions including battalion chiefs, assistant fire chiefs, and one hazmat position. Local 500 negotiates for non-management blue-collar and clerical staff.

Forecasted Imbalance Compared to Actual General Fund Balance

The forecast published in 1998 indicated an imbalance through 2002 (see exhibit below). The funds in the forecast included the general, east park, west park, community centers, zoo, motor fuel tax, and convention and tourism, all funds supported by the general fund.

Forecast Imbalance General Fund and General Fund Supported Funds Fiscal Year 1998 Adopted Budget (in millions)

	1998	1999	2000	2001	2002
Revenues	\$ 366.3	\$ 376.9	\$ 387.5	\$ 398.4	\$ 412.3
Net Transfers	(17.0)	(18.5)	(20.5)	(22.1)	(24.2)
Expenditures	(357.2)	(366.7)	(376.4)	(388.1)	(398.5)
Imbalance	\$ (7.9)	\$ (8.3)	\$ (9.3)	\$ (11.8)	\$ (10.4)

Actual General Fund Balance General Fund and General Fund Supported Funds Adopted Budgets (in millions)

	1998	1999	2000	2001	2002
Revenues	\$ 362.3	\$ 383.8	\$ 405.8	\$ 406.8	\$ 432.7
Net Transfers	(13.4)	(17.4)	(25.2)	(17.3)	(21.9)
Expenditures	(345.8)	(355.7)	(377.1)	(383.2)	(402.9)
Fund Balance	\$ 2.9	\$ 10.6	\$ 3.3	\$ 6.3	\$ 7.8

Appendix D

List of Forum Participants

Financial Condition Forum Participants

Eric A. Anderson
City Manager, City of Des Moines, Iowa

Danny R. Carpenter
Executive Vice President, Stilwell Financial Inc.

Jack Craft
Senior Partner, Craft Fridkin & Rhyne

Glenn Deck
Executive Director, Kansas Public Employees Retirement System

Joseph O'Keefe
Senior Director, Fitch Ratings

Kevin Riper
Director of Finance, City of Kansas City, Missouri

Irene S. Rubin
Professor, Public Administration and Political Science
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Kristy Cannon Stallings
Director, Finance, Budget and Administration
City of Overland Park, Kansas

David A. Warm
Executive Director, Mid-America Regional Council

Nancy L. Zielke
Assistant Vice Chancellor for Fiscal Operations
University of Missouri Kansas City

Moderator
Mark Funkhouser
City Auditor, City of Kansas City, Missouri